

EL SALVADOR¹

MINIMUM WAGE

Articles 144-146 of the Labor Code guarantee all workers a minimum wage that “sufficiently covers normal necessities of (workers’) household.” Articles 143-154 set up a National Minimum Wage Board composed of seven members: three from the government (with one representative each from the Ministries of Labor, Economy, and Agriculture); two from the labor sector (drawn from labor federations); and two from the business sector (drawn from business organizations). The board, in consultations with the National Economic Planning and Coordinating Commission, can recommend changes of the minimum wage to the President. If accepted, the minimum wage is legally changed by a Presidential Decree. Minimum wages vary by industry and differ by certain urban and rural areas of the country. The Labor Ministry is responsible for enforcing minimum wage laws and does so effectively in the formal sector.²

As of February 1999, the daily minimum wage for private industry was 42.00 colones (C)—about 4.81 U.S. dollars (US\$). The daily minimum wage for private industry from July 1995 through May 1998 was C38.50 (US\$4.40). In comparing the Salvadoran minimum wage to other countries, it is important to note that by law, full-time employees receive 7.0 days (56 hours) of pay for working the normal 5.5 day (44 hours) week.

For El Salvador, the minimum wage is more than a lower limit for salaries. The majority of private sector companies, including virtually all maquilas, use the minimum wage as a base line for comprehensive pay schedules. Thus, increasing the minimum wage automatically generates a proportional pay increase for all employees earning hourly wages.

PREVAILING OR AVERAGE WAGE

The apparel industry in El Salvador consists primarily of in-bond assembly plants (maquilas) and—since the signing of the peace accords in 1992—has been El Salvador’s principal source of new employment. It is currently the second most important (and fastest growing) export sector for the country. Apparel plants represent over 90 percent of the total maquila sector. There are no Salvadoran laws on wages and benefits specific to the apparel industry or maquila sector; all employment is governed by the national labor code.

¹Unless noted otherwise, information presented here is from American Embassy—San Salvador, unclassified telegram No. 607 (February 22, 1999).

² U.S. Department of State, *Country Reports on Human Rights Practices for 1998* (Washington: U.S. Government Printing Office, April 1999), p. 628.

Determining prevailing wages in the apparel maquila industry is difficult due to lack of comprehensive data. The first of two currently available systematic surveys of wages in the maquila sector was conducted in 1995-1996 by the Office of the Ombudsman for the Defense of Human Rights (the independent, but state-financed human rights organization, PDDH); the report's sampling technique and analysis appear well designed and credible. This survey of maquila workers found that:

- 21.3 percent received 75- 99 percent of minimum wage;
- 42.3 percent received 100-107 percent of minimum;
- 25.1 percent received 108-140 percent of minimum;
- 8.4 percent received 141-224 percent of minimum; and
- 1.6 percent received 225 percent or more than the minimum wage.

The survey reported that 0.8 percent of the sample did not know how much they made and 0.5 percent did not respond to the question.

Employers are not required to pay minimum wage to new workers during their initial training period. Maquila plants have a fairly large turnover rate, and there is a constant influx of new workers throughout the year. This may be one of the factors affecting the size of the group receiving less than minimum wage. The survey also indicated that women represented over 91 percent of the workers in the three lowest wage categories, but only 62 percent of the workers in the two highest wage categories.

The second wage survey, which used social security data, was conducted in August 1998 by the National Association of Private Enterprise (ANEP), one of the country's foremost business organizations. According to the study, in 1997, the minimum wage was C38.5 a day or about C1,155 a month. The ANEP reported that average monthly maquila wages were:

- C1,339 (US\$153) for plants with 5-10 workers;
- C1,527 (US\$174) for plants with 10-50 workers;
- C1,588 (US\$182) for plants with 50-190 workers;
- C1,755 (US\$201) for plants with over 100 workers; and
- C1,600 (US\$183) overall for the entire sector.

Based on the U.S. Embassy's field observations and information from a variety of sources, the maquila apparel sector generally pays more than minimum wage—making these jobs some of the most sought after in the country. The large maquilas, especially those operated by U.S. multinationals and plants located in export processing zones (EPZs), have prevailing wages much higher than minimum.

The table below presents available data from the International Labor Organization (ILO) on average hourly earnings (direct wages per worker) in El Salvador for production workers in the manufacturing sector and in the textile and apparel industry. They include pay for time worked, paid leave, bonuses, and other

benefits paid directly to the employee, but not the cost of social insurance programs.³ Average hours worked per week by production workers in manufacturing were 46.0 for the years 1990 through 1996.⁴ Data were not available from the ILO on average weekly hours worked by production workers in the textile and apparel industry. Current average earnings, which are reported by the ILO in the national currency, were converted to US\$ using the annual average exchange rate published in the International Monetary Fund's *International Financial Statistics* (March 1999). To track changes in real earnings (i.e., earnings adjusted for inflation), a real earnings index was computed by deflating current earnings in the national currency with the annual average national consumer price index as published in the International Monetary Fund's *International Financial Statistics* (March 1999), indexed to 1990 = 100.

Average Hourly Earnings in All Manufacturing and Textiles and Apparel⁵

Year	All Manufacturing		Textiles & Apparel				Real Earnings Index (C; 1990=100)		
	All Workers		Male Workers		Female Workers		Manuf.	Textiles & Apparel	
	(C)	(US\$)	(C)	(US\$)	(C)	(US\$)	All Wkrs	Males	Females
1990	3.27	0.41	3.37	0.41	2.53	0.32	100	100	100
1991	4.08	0.50	na	na	na	na	109	na	na
1992	4.63	0.50	na	na	na	na	111	na	na
1993	5.35	0.62	5.50	0.63	5.03	0.58	108	108	132
1994	6.20	0.71	6.26	0.72	5.93	0.68	114	111	141
1995	6.88	0.79	6.99	0.80	6.70	0.77	115	113	144
1996	7.50	0.86	7.72	0.88	7.33	0.84	114	114	144
1997	na	na	na	na	na	na	na	na	na

Note: na = not available.

Source: ILO, *Yearbook of Labour Statistics*, 1998, p. 889.

NON-WAGE BENEFITS

There are no government-mandated non-wage benefits designated only for the apparel or maquila industry. All employers in the private sector are required by law to give workers paid days off for national holidays (*asuetos*), a yearly Christmas bonus of two-week's pay (*aguinaldo*), and (for workers with more than one year of service) a yearly paid two-week vacation with vacation bonus of 30 percent of a two-week pay period. In addition, workers earn mandated separation pay, accumulated at roughly one-month's base pay per year worked (or fraction thereof), payable at the time of the termination of their employment.

Individual maquila plants (notably larger companies) and many EPZ park operators offer significant

³ International Labour Organization, *Yearbook of Labour Statistics*, 1998 (Geneva: International Labour Office, 1998), p. 805.

⁴ International Labour Organization, *Yearbook of Labour Statistics*, 1998 (Geneva: International Labour Office, 1998), p. 737.

⁵ Data were available only for the combined industry of textiles and apparel, with separate earnings data for male and female workers.

voluntary benefit packages which may include medical facilities and services in or near the plant, low or no interest personal loans, sales of subsidized groceries and goods, sports and recreation facilities for workers and families, subsidized or low-cost meals at work, and free transportation.

A U.S. Social Security Administration survey⁶ elaborates on three non-wage benefit programs employers in El Salvador must enroll for their employees: (1) a social insurance program, started in 1953, which covers old age, disability, and death benefits, and now also includes mandatory private insurance. A new law, which took effect in 1997, will eventually phase out the older system. Under the provisions of the new system, the insured person pays 3 percent of earnings, the employer pays 4.5 percent of the payroll, and the government guarantees a minimum pension; (2) sickness and maternity benefits, first established in 1949, for which the insured person pays 3 percent of earnings, the employer pays 7.5 percent of the payroll, and the government pays an annual subsidy; and (3) work injury benefits program, begun in 1911, for which the contributions are the same as for sickness and maternity.

ASSESSING BASIC NEEDS: THE POVERTY LINE

The Office of Statistics and Census in the Ministry of Economy (Dirección General de Estadística y Censos [DIGESTYC], Ministerio de Economía) establishes poverty levels every month, based on the cost of a basic food basket (consisting of milk, meat, beans, rice, tortillas, and seasonal vegetables) and other essential goods and services (housing, clothing, and other miscellaneous items such as health care, education, and transportation) for an urban family of 4.3 people and a rural family of 5.9 people. Typically, a household has more than one wage earner. Two different poverty classifications are used, relative poverty (income insufficient to purchase the minimum basket of goods and services, including the basic food basket) and extreme poverty (income insufficient to purchase the basic food basket), for the urban and the rural populations. As of January 1999, the levels for each, based on monthly household income, were:

<u>Relative Poverty</u>	<u>Poverty Line</u>	<u>Extreme Poverty</u>	<u>Poverty Line</u>
Urban	C2,590 (US\$296)	Urban	C1,295 (US\$148)
Rural	C1,808 (US\$206)	Rural	C904 (US\$103)

The Center for the Defense of the Consumer (Centro para la Defensa del Consumidor—CDC), an NGO, has also developed poverty lines for a family of 4.2 persons, based on the cost of a basic food basket (*canasta mínima familiar*)—extreme poverty—and the cost of an expanded basket of food and other goods and services such as cleaning and personal hygiene products and some basic services such as water, electricity, gas for cooking, and transportation (*canasta básica ampliada*)—relative poverty. According to the CDC, for November 1998, the extreme poverty line was C2,236.82 per month, with 23.3 percent of the urban and 33.6 percent of the rural population below this poverty line, and the relative poverty line was C2,619.78 per month, with 30.5 percent of the urban and 32.5 percent of the rural population below

⁶ Social Security Administration, *Social Security Programs Throughout the World - 1997* (Washington: U.S. Government Printing Office, August 1997), pp. 115-117.

this poverty line.⁷

A compendium of poverty and income distribution statistics prepared by the International Labor Organization⁸ reports several sets of measures of a national poverty line for El Salvador:

- ! for 1978, 32 percent of the rural Salvadorian population was below the rural poverty line of annual per capita income of US\$203 and 20 percent of the urban Salvadorian population was below the urban poverty line of annual per capita income of US\$317, with a national poverty rate of 27 percent.⁹
- ! for 1990, 14.9 percent of the urban Salvadorian population was below the poverty line of a monthly per capita income of US\$30 in 1985 purchasing power parity adjusted US\$ and 41.5 percent of the urban population was below the poverty line of a monthly income of US\$60 in 1985 purchasing power parity adjusted US\$.¹⁰
- ! for 1980, 76 percent of the rural Salvadorian households were below the poverty line.¹¹

⁷ Centro para la Defensa del Consumidor (CDC), "Tasa de Inflación Mensual y Acumulada: Costo Ponderado de Canasta Mínima Familiar y Canasta Ampliada, CDC-DIGESTYC: Breve análisis a noviembre de 1998," public submission by the Chicago Religious Leadership Network on Latin America (CRLN) in response to the U.S. Department of Labor's *Federal Register* notice of June 30, 1999.

⁸ Hamid Tabatabai, *Statistics on Poverty and Income Distribution: An ILO Compendium of Data* (Geneva: International Labour Office, 1996), p. 60.

⁹ The estimates are referenced as originating from the World Bank, *Social Indicators of Development 1988* (Washington: World Bank, 1988). The poverty estimates are based upon an estimated absolute poverty income level below which a minimal nutritionally adequate diet plus essential non-food requirements are not affordable. According to the UN's Food and Agriculture Organization (FAO), *The Impact of Development Strategies on the Rural Poor* (Rome: FAO, 1988), p. 7, the poverty lines were determined by: (1) identifying the food basket consumed by low-income groups in the country (taken to be the 20th percentile of the household income distribution); (2) estimating the quantities of that food basket necessary to provide the minimum calories and proteins required for nutritional needs; (3) costing the minimum food basket at appropriate retail market prices; and (4) adding the estimated monetary equivalent of essential non-food needs (clothing, shelter, etc.). See Tabatabai, *Statistics on Poverty and Income Distribution: An ILO Compendium of Data*, p. 139.

¹⁰ The estimates are referenced as originating from George Psacharopoulos, Samuel Morely, Ariel Fiszbein, Haeduck Lee, and Bill Wood, *Poverty and Income Distribution in Latin America: The Story of the 1980s*, Latin America and the Caribbean Technical Department, Regional Studies Program, Report No. 27 (Washington: World Bank, 1993), pp. 62-69. The study is based on national-level household surveys compiled by the Economic Commission for Latin America and the Caribbean (ECLAC) and the World Bank. The poverty lines, in 1985 purchasing power parity adjusted US\$, were converted into national currencies, but were not provided in the ILO compendium. See Tabatabai, *Statistics on Poverty and Income Distribution: An ILO Compendium of Data*, p. 138.

¹¹ The estimate is referenced as originating from the UN Economic Commission for Latin America (ECLA), "Notas sobre la Evolución del Desarrollo del Istmo Centroamericano hasta 1980," mimeographed, Mexico City (1982),

! for 1991/92, 55.7 percent of the rural and 43.1 percent of the urban Salvadorian households were below the poverty line, with a national household poverty rate of 48.2 percent.¹²

The World Bank reports¹³ that, in 1992, 48.3 percent of the Salvadoran population was below the national poverty line, with 43.1 percent of the urban population and 55.7 percent of the rural population living below the national poverty line.

The World Bank reported in 1994 that those in poverty and extreme poverty are predominantly in rural areas of El Salvador.¹⁴ Sixty one percent of all the country's poor and 67 percent of the extremely poor live in rural areas. The incidence of poverty is lowest in the San Salvador metropolitan area with 24 percent of the country's poor and 14 percent of the extremely poor. Poverty is largely a problem of underemployment and low productivity rather than one of widespread unemployment. The majority of the rural poor are engaged in agriculture as self-employed or salaried workers. The majority of the urban poor are engaged in informal sector activities in the commerce, cottage manufacturing, and agricultural sectors. Poor female-headed households make up a large share of poor households in urban areas, but this pattern does not hold for rural areas.

MEETING WORKERS' NEEDS

There is little conclusive evidence on the extent to which wages and non-wage benefits in the footwear or apparel industries in El Salvador meet workers' basic needs. Some information from U.S. Department of State or U.S. Embassy reports indicates more generally that the minimum wage with benefits does not provide a decent standard of living for a worker and family in El Salvador.¹⁵ The U.S. Embassy has not found any studies on the living wage in El Salvador.

p. 21. No further information is provided in the ILO compendium. See Tabatabai, *Statistics on Poverty and Income Distribution: An ILO Compendium of Data*, p. 60.

¹² The estimates are referenced as originating from the World Bank, *El Salvador: The Challenge of Poverty Alleviation*, Report No. 11380-UG (Washington: World Bank, 1994), p. 11. No further information is provided in the ILO compendium. See Tabatabai, *Statistics on Poverty and Income Distribution: An ILO Compendium of Data*, p. 60.

¹³ World Bank, *World Development Report 1998-99* (New York: Oxford University Press, 1999), p. 196.

¹⁴ World Bank, *The Challenge of Poverty Alleviation* (Washington: World Bank, 1994), p. 5.

¹⁵ U.S. Department of State, *Country Reports on Human Rights Practices for 1998* (Washington: U.S. Government Printing Office, April 1999), p. 628.